

CREATING SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH
SERVICE INNOVATION:
A CASE STUDY OF POSLAJU IN POS MALAYSIA BERHAD

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RESEARCH REPORT IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF ONLINE MBA

GRADUATE SCHOOL OF BUSINESS
UNIVERSITI SAINS MALAYSIA

2014

ACKNOWLEDGEMENTS

By the name of Allah, the Most Gracious and the most Merciful

First, I would like to express my appreciation to Allah, the Most Merciful and, the most compassionate, who has granted me the ability and willingness to start and complete this study. I thank his greatness for inspiring and enabling me to complete my final year dissertation.

My most profound thanks to my supervisor Dr. Salmi binti Mohd Isa for her continuous support, patience, motivation and creative guidance in helping me.

I would like to thank my beloved mother, Khatniah binti Omar for pushing me further my studies and support me through those tough days. Without her spirit, I won't able to complete my study. Besides, I also would like to thank my family for their support to help me in the completion of this dissertation.

Last but not least, to my all my beloved friends as well as lecturers who have given emotional support are really appreciated and will be remembered forever, Insya-Allah. Thank you.

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ABSTRACT

POS Malaysia Berhad is a premier postal service provider in Malaysia. POS Malaysia Berhad provides postal services throughout Malaysia; handling million of mail and items per day through a network of over 1,000 touch points countrywide includes Pos Malaysia Outlets, Pos Minis, Pos24 (Self-service Terminal), Post-On-Wheels (Mobile Outlets), postal agents and stamp agents. The evolution of technology over the years saw the emergence of digital media or internet changing the customer behaviours. According to annual report 2013, POS Malaysia Berhad service changed from traditional postal services to becoming one-stop provider of communications, financial services and supply chain solution. In line with their theme *“Looking Ahead Going Beyond”*, POS Malaysia Berhad service technologies changed in order to meet the demands and needs of customer changing behaviour and to carter new market place opportunity.

Currently, POS Malaysia Berhad is regarded as the monopoly player in the national postal industry but in actual fact, it is not. To sustain in this industry, POS Malaysia Berhad has been strategizing its operation through PosMel (mail and posted services), PosLaju (courier and express mail services) and PosNiaga (retail business service); to compete directly and indirectly with other companies both domestic and international arenas. In this study, service innovation by PosLaju is analyzed to evaluate its impacts and effectiveness. Through interviews, issues such as service and product effectiveness, customer experiences and more and case issues were addressed. Analysis tools such as PEST analysis and SWOT analysis were used to analyse the internal and environmental factors of the case issues. Recommendations are given to improve the issues to enhance customer satisfaction, resulting for sustainable competitive advantage in the competitive postal industry.

ABSTRAK

POS Malaysia Berhad merupakan pembekal perkhidmatan pos utama di Malaysia. POS Malaysia Berhad menyediakan perkhidmatan penghantaran, mengendalikan juta surat dan barangan setiap hari melalui rangkaian lebih 1,000 sentuhan mata seluruh negara termasuk Pos Malaysia Outlets, Pos Mini, Pos24 (perkhidmatan layan-diri), Pos-On-Wheels (Pos Bergerak), wakil pos dan wakil setem di seluruh Malaysia. Evolusi teknologi telah menyaksikan kemunculan media digital atau internet yang mengubah tingkah laku pelanggan. Menurut laporan tahunan 2013, perkhidmatan POS Malaysia Berhad berubah dari perkhidmatan pos tradisional menjadi pusat sehati untuk perkhidmatan komunikasi, kewangan dan rantaian bekalan. Selaras dengan tema mereka *“Looking Ahead Going Beyond”*, POS Malaysia Berhad merubah teknologi perkhidmatan untuk memenuhi permintaan dan keperluan pelanggan yang berubah-ubah dan menembusi pasaran baru.

Kini, POS Malaysia Berhad memonopoli industri pos negara tetapi pada hakikatnya, ianya tidak. Untuk bertahan dalam industri ini, POS Malaysia Berhad telah merangka strategi operasinya melalui PosMel (surat dan perkhidmatan pos), PosLaju (kurier dan perkhidmatan ekspres mel) dan PosNiaga (perkhidmatan runcit); untuk bersaing secara langsung dan tidak langsung dengan syarikat-syarikat samada di arena tempatan dan antarabangsa. Dalam kajian ini, inovasi perkhidmatan PosLaju dianalisis untuk menilai impak dan keberkesanan. Melalui temubual, isu-isu seperti perkhidmatan dan keberkesanan produk, pengalaman pelanggan dan isu semasa ditangani. PEST analisis dan SWOT analisis telah digunakan untuk menganalisis faktor-faktor dalaman dan luaran berkaitan dengan isu kes. Cadangan diberikan untuk memperbaiki isu-isu bagi meningkatkan kepuasan pelanggan yang mendorong kelebihan daya saing yang mampan dalam industri pos yang kompetitif.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Over the years, there are rising interest in innovation and services that should not be ignored. This clearly shows that when products or services become more homogenous or the original competitive advantage cannot be preserved, service innovation becomes an efficient way for businesses to increase the growth rate and profitability (Berry, 2006). Service Innovation concept was first developed by Miles (1993) several decades ago. This concept is used to refer about innovation in services products, innovation in services processes and innovation in services service firm.

According to past studies, practitioners and academic researchers were interested in describing and forecasting the background and results pertaining to innovation in services. Several decades ago, investigation of services innovation has answered a lot of considerations, including the decision to adopt service innovation, the features and typology of innovations in it's services as well as the strategy, the process and the drivers of service innovations (Berry, 2006; van Riel, Lemmink and Ouwersloot, 2004). Therefore, the subsequent effort demonstrates how valuable innovation in businesses practices needs to be highlighted.

In the current economic conditions, the customer's preference is rapidly changing due to the various appearances of consumer segments through the change in values, tastes and shopping trends. Companies should deliver the service or product in a cost effective way to deliver superior value to the customers and enhance service delivery methods that will boost profits and reduce costs. In reality, it was found that most of service providers currently still using the same delivery service strategies to their respective customers. This is because the core delivery of

service operations is turning inputs into outputs, which is usually performed through a set of the same processes not considering the type of service (Johnston and Clark, 2001). Therefore, to conquer a competitive position, companies need to convey the services through the existing distribution approach available in most creative ways as possible. The creative ways of delivery style undeniably will become a new source of innovation for the company. According to Berry (2006), service innovation seeks to generate new markets with innovating delivery service and thereby extends the company's service coverage.

This case study is about creating sustainability competitive advantage via service innovation implement by PosLaju. PosLaju is one of the business units in POS Malaysia Berhad. The case study will analyze the effectiveness of PosLaju service innovation to cultivate the needs and demands among the various types of customers. The background of the case study will be first introduced in this chapter, followed by problem statement, research questions, issues examined in the case and followed by scope and limitation of the study in the remaining chapters.

1.1 Background of the Case

According to Asia Business Monitor Survey, the source of economic growth in ASEAN region is powered by Small and Medium Enterprises. Realizing this, many Asian governments have initiated strategies and measures intended at expediting the development and incorporation of Small and Medium Enterprises into vibrant supply chain network regionally and globally (US-ASEAN, 2005). As the power of internet grows; the opportunities of growth for small and medium sized business is high. Its contributed 4.1 per cent per year for the economy and is expected to increase sharply over the next 3 years (US-ASEAN, 2005). The increasing of Small and Medium

Enterprises has affected the increase of courier service provider. As reported by Malaysian Communication and Multimedia Commission, in year 2001 there was 115 courier licences has been issued as in Figure 1-1. Even though more affordable and convenient services are required by customers, in year 2013 the statistic showed only 93 courier service provider had licence in Malaysia. Decades ago, courier services were a highly-priced service but with new innovation in packaging; the price has become more inexpensive.

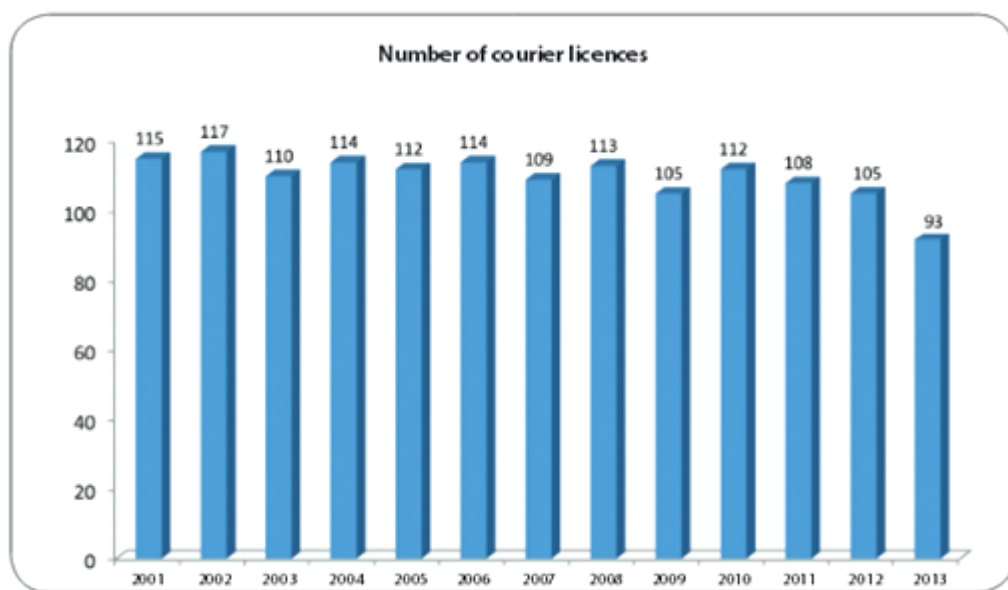


Figure 1-1: *Number of Courier Licence as at 30 June 2013*
Source: *Statistics Department by Malaysian Communication and Multimedia Commission (MCMC)*

1.2 Problem Statement

“Looking Ahead Going Beyond” is the theme slogan of POS Malaysia Berhad. The Looking Ahead is a way of maintaining edge to POS Malaysia Berhad by seeking mixture of transformation ideas with broad objective. While Going Beyond is about expanding the income stream at the same time enhancing the profit margin by transforming the traditional mail offered.

During year 2013, the global economic prospects showed an improvement though the path towards recovery seems to be confined by fiscal and structural vacillation. Notably the promising economies including Malaysia remained resilient and continued to show encouraging performance. The Gross Domestic Product in 2012 has increased to 5.6 per cent compared to 5.3 per cent in 2011.

The domestic economic trends reflect the progressive reformation of the economy over the past few decades. This structural reformation had given a greater supply policy in Malaysia which proved the raise of macro landscape. While global macro landscape was moving slowly, the postal industry was faced with the extensive use of digital technologies. Due to the digital wave, the demand of traditional postal service is declining. In 2013, Pos Malaysia recorded that the revenue of Ringgit Malaysia 1.27 billion was primarily driven by courier and retail business. The courier and retail business, recorded the double growth supported from strong demand, contract businesses and in addition from rapid expansion of parcel from online businesses.

POS Malaysia Berhad courier service is handled by one of the business units known as PosLaju. In order to improve time consume, PosLaju integrated seamlessly with service innovation. This study is to examine the effectiveness of service innovation such as Prepaid Box and Envelope that widely used in PosLaju courier system. It also to investigate whether the innovation in PosLaju courier system is able to lower operation cost and enhances customer engagement especially for online businesses.

This study will focus deeply into PosLaju service innovation model, analyses the issues of service innovation and recommendation to improve the issue to enhance consumer engagement resulting in sustainable competitive advantage in the

competitive courier industry. A good service innovation can directly influence the communication (customers), experience (finding, using and disposing the product), capabilities (organisation to create value stakeholders); and bringing better self-service, removing waiting time and granting 24 hours and 7 days access using technology devices such as web browsers, mobile phones and kiosks (IfM and IBM, 2008).

1.3 Research Objective

Therefore, the main objectives for this case study are shown as below:

1. To analyse the existence of service innovation in PosLaju.
2. To explore the relationship between cost, operation, customer satisfaction and use of self-service innovation by PosLaju
3. To explore the impact of sustainable competitive advantage towards customer engagement by PosLaju.
4. To identify the tools and techniques for promoting effective service innovation in PosLaju.

1.4 Research Questions

In order to achieve the above objectives, this study is based on the following research questions:

1. Does PosLaju apply service innovation in its operation?
2. What are the issues arising from the service innovation offered?
3. How strengths, weaknesses, opportunities and threats will help PosLaju to improve service innovation towards customer engagement creating sustainable competitive advantage?

4. What are the challenges and the future of service innovation in courier industry?

1.5 Scope and Limitation of the Study

The important of this study is that it can help to furnish a new perspective on service innovation in courier industry in Malaysia. The aim of this study is to raise knowledge about service innovation. In this new challenging economic era, service innovation has been facing multiple challenges that light up complexities, intangibility and prearranged the real-time occurrence of production and consumption (Verma et al., 2008).

This case study will focus and analyse the PosLaju service innovation that was implemented in order to remain competitive. This covers on the part of consumer expectation and satisfaction. This case study only covered POS Malaysia Berhad, the comparison with the existing competitors such as GD Express, CityLink, SkyNet and others cannot be made. Besides, the research on PosLaju was only being done through document collected from annual report, journal and website. POS Malaysia Berhad data and information are fully confidential and restricted for public.

1.6 Overview of the Case Study

This report shall cover 6 chapters and the outlines are as follows:-

Chapter One: Introduction

This chapter contains the introduction of the case study including the study background study, problem statement, research objectives and research questions.

Chapter Two: Industry Profile and Analysis

This chapter started with the history of postal sector and the development of POS Malaysia Berhad. It also contains the literature review for this study.

Chapter Three: Research Methodology

This chapter described the design of the research study from data collection, list of document reviewed, list of people interview, data linkages, interview protocols and tools used for analyzing the data.

Chapter Four: Case Write-up

This chapter contains the overview of POS Malaysia Berhad and the developing of PosLaju. The main discussion of the chapter is more on self-service innovation embraced by PosLaju.

Chapter Five: Case Analysis

This chapter discussed about the SWOT analysis. This analysis tool is used to analysis the internal and external factors of the case issues.

Chapter Six: Recommendation and Conclusion

The final chapter covers recommendation and conclusion on the use of self-service technologies to enhance customer satisfactions. Suggestions were given from analysis from previous chapter and ended with a conclusion for this study.

CHAPTER TWO

INDUSTRY PROFILE AND ANALYSIS

2.0 Introduction

This chapter starts with a brief history on how mail or post system started in Asian countries. This is followed by the evolution of POS Malaysia Berhad from Postal Service Department to a corporate institution in Malaysia. Further section in this chapter the literature review will discuss on sustainability and service innovation definition, opportunities, main key elements and the challenges faced by service sector.

2.1 History of Postal Reform in Asian Countries

The mail or post is a system transporting documents or small packages physically which is known as letters, postcard and parcels themselves. From the invention of writing, the communication practice by written documentations carried by intermediaries from one place or one person to another has already existed. However, the recognized postal system development takes place much later. Back to 2400 Before Century, the first postal delivery service used was documented when Pharaohs used this system to disseminate decrees in Egypt. Dating to 225 Before Century, the initial existing piece of letter was also from Egypt (Universal Postal Union, 2013).

During the Ancient Persia era, the development of a real postal system already embraced by the Great Persian King Cyrus during (550 Before Century) (Pierre Briant, 2002). Other sources from Hammurabi (1700 Before Century) and Sargon II (722 Before Century) claimed that the Assyrian postal system was used in much

earlier dates. At that time, the primary mission of the postal service was not delivering the mail. It used the role of the system as a tool to document intelligence gathering. A messenger was used to send the document on horseback until it reached the next post where the horse was exchanged with a new horse for maximum delivery speed.

The concept of public service for transmission of documents developed gradually with the development of Europe after the Middle Ages. The postal service system in Asia started in India began with the overland routes, stretching from Persia. The postal system emerged when the independent states; Portuguese, Dutch, French, Danish and British colonialists gained power in India. During the year 1764 to 1766, the East India Company initially set up post offices in Chennai, Calcutta (now Kolkata) and Mumbai. At first, the main existing reason of postal system was to serve the commercial needs of the East India Company. Serving economic and political needs of the ruling authority remained a driving force in the development of the postal service. In 1837, the Post Office Act was introduced to preserve the exclusive right to transmit letters among East India Company's territories. According to Post Office report in 1850, a standard rate for dependent postal based on weight had been introduced (BPMA). For the first time, the postal service becomes affordable for ordinary communications by the common man.

2.2 History of Postal Services Reform in Malaysia

The history of postal service in Malaysia can be traced back to the early 1800s. The emerging of Straits Settlements of Penang, Malacca and Singapore by East India Company has established the first postal service. By early 20th century, it gradually covered the entire Malaya. Back at the time, letters were delivered via dispatch riders

or messengers. The postage fees were collected manually upon the arriving of the letters in the respective post office and receipt will be given.

However, when Indian post introduced printed stamps in 1867, the system has been changed. In 1901, the first authoritative set of postage stamps was introduced. During those days, the postal service was used as a medium to deliver newspapers, letters and also business documents.

2.2.1 The Emerging of POS Malaysia Berhad

The history of POS Malaysia Berhad starts as early of 19th century during the establishment of postal service first in the Straits Settlement in which cover the whole Malay Peninsula by early 20th century. At the beginning it was used as tools for the diffusion of newspapers, letters and business documents but it was evolved into a numerous service provider. It embarked to endeavour into parcel delivery, insurance service, money and postal order and investment fund under Post Office Saving Bank which is now known as Bank Nasional Berhad.

POS Malaysia Berhad formerly known as Postal Service Department or in bahasa it is "*Jabatan Perkhidmatan Pos*". As government machinery, it began to conquest several services such as collection of electricity bill payment, sale of dog licence, sale of television licence, disbursement of pensions and others. After achieving independent, Malaysia begins to participate in various international associations to stay sustainable in social and economical developments. Malaysia has become a member country of the Universal Postal Union on 17th January 1958. A participation in which Malaysia still remain as a dynamic member until today.

In order to stay competitive, in 1992 "*Jabatan Perkhidmatan Pos*" was no longer a government owned but restructured as a business entity. Postal Service

Department has become incorporated entity. In September 2001, POS Malaysia Berhad was listed on the Kuala Lumpur Stock Exchange through a reverse takeover of a Phileo Allied Berhad assuming its listing status. Phileo Allied holds recognition to offer postal services through its network of over 646 branches and mini post offices in Malaysia (Utusan Melayu, 2001). Phileo Allied changed its corporate name to Pos Malaysia & Services Holdings Berhad in 2002. Later Khazanah Nasional Berhad, the investment holding arm of Malaysian government holds 32 per cent of Pos Malaysia & Services Holdings Berhad ownership.

For sustainability, POS Malaysia introduces three core Business Units which are known as PosMel, PosLaju and PosNiaga in 2009. The delivery operation of the three core services is supported by the logistic arms.

2.2.1.1 Strategic Business Units

a) PosMel

PosMel is basic postal services. It comprises of the standard and non-standards mail items. In order to cater the needs from retail and corporate customers, the postal service continues to produce various innovation products and services.

b) PosLaju

PosLaju offers domestic and international courier service via its 50 dedicated courier centres supported by Pos Malaysia's retail network. In order to complement its express services, PosLaju also introduce value-added services which are pick-up service, web-based tracking, insurance package and packaging.

c) PosNiaga

PosNiaga offers various services from philatelic products, bill payments, financial products and on-line service through PostMe.com.my. These services can be obtained at normal post offices, mini post offices and agent all over Malaysia.

2.3 Development of Courier Service Industry in Asia Pacific

In modern economic life, the express industry is like the flow of blood that provides basic life support for economic operation and production. Courier service especially has become a necessary part of modern life opportune when a file passed to the corporate procurement of goods or even gourmet network can be ordered directly by mail. According Universal Postal Union statistics report (2013) it was revealed that, in year 2012 consumers globally spent more on courier services than during year 2011. The expenditure was up 4 per cent in nominal terms to 349.8 billion American Dollars. The number showed that stability of this industry has been rocked by global forces, including the decline of letter-post volumes, economic and financial uncertainty but buffeted by the emerging of e-commerce.

The development of e-commerce has embraced service innovation such as drop boxes for packages. This has opened a wider and more heterogeneous range of destination points. So far though, fee-based delivery options for recipients have had little success. One of the advantages of the courier service industry compared to other service sector is that it's widespread network. An item can be post and delivered from almost anywhere in the world. This enormous logistical capacity constitutes the backbone of the courier service industry and has changed little over

the past three decades. In Asia Pacific, the volume of the parcel dispatched increased from 4.586 million in 2010 to 5.024 million in 2012 as in Table 1.

Table 1: *Number of Dispatched Parcel for Asia Pacific Region*
Source: *Universal Postal Union (UPU)(2013)*

Global or regional estimates				
Administrations : Developing countries - Asia and Pacific				
Items : Number of ordinary parcels, international service - dispatch				
Years : 2010, 2011, 2012				
Group	Items	2010	2011	2012
Developing countries - Asia and Pacific	9.5 Number of ordinary parcels, international service - dispatch	4'586'148	4'804'448	5'024'480
Records 1 to 1				

According to Universal Postal Union statistic report (2013), an operator in Asia-Pacific seems to depend heavily on postal financial services which show that there are discovering new business fields. It is worth noting that in Asia Pacific region which there are large population countries such as China and India are incumbents to provide home delivery for letters or parcels to the overwhelming majority of people.

2.4 Development of Courier Service Industry in Malaysia

The postal and courier sector has become a multi-billion industry. In 2011, the market size of this sector was nearly Ringgit Malaysia 2.2 billion in term of revenue (Vital Factory Consulting, 2013). This industry continues to grow resulting from expansion of economic expansion, population and online shopping trends.

In the digital and borderless communication era, the e-commerce has become a key driver in the growth of postal and courier service. More and more people are buying and selling through the Internet. Consumers and businesses need to courier service to move goods or products from one place to another place in the country and also overseas. The development of modern and universal postal and courier service network is vital as it affects the service and products quality and innovative. The need to embrace efficient services through huge investment in service innovation is in line with the increase in e-commerce applications and consumer responsiveness.

The courier companies in Malaysia are very important and resourceful functioning for the whole economy and society. Unlike the courier industry, just few industries in Malaysia closely connected physically with the households, retail outlets and businesses. Due to the rapid evolution of Information Communication Technology in Malaysia, the postal and courier services providers have experienced an extensive change.

The postal services and private courier companies in Malaysia are essential to the efficient functioning of the economy and society as a whole. Unlike the postal and courier sector, only few sectors in Malaysia come close to the level of physical connectivity with households, businesses and retail network across the country. Due to rapid evolution in Information Communication Technology, postal and courier services providers in Malaysia have undergone a radical change. Internet has become one of the tools that could be utilised as a strategic development in business. To meet this challenge, many postal providers have step up their effort to modernise postal network, innovate and diversify its product portfolio in order to deliver high quality service that is relevant to the consumers in the market place.

According to statistics by Malaysian Communications and Multimedia Malaysia, the numbers of license issued to courier companies provide some indication of the supply side of the courier sector. Between 2001 and 2012, the number of courier licences issued in Malaysia fluctuated between 115 and 113 licences. As at 31 March 2013 there were 96 courier licences as in Figure 1-1.

Even though the number of licences drops in 2013, the total number of courier establishment between 2008 and 2012 grew at normal growth rate of 9.3 per cent. From year 2012, there were 805 courier establishment presented by 32 per cent of branches, 28.8 per cent of agents and the remainder 39.1 per cent comprised of drop-in centres, hubs, gateways, franchise and affiliates as in Table 2.

Table 2: *Courier Establishment Indicators as at 2012*

Source: *Malaysian Communications and Multimedia Malaysia (MCMC)*

	2008	2009	2010	2011	2012	AAGR 2008-12 (%)
Total Establishment	565	570	646	722	805	9.3
- Hubs	16	18	25	24	23	9.5
- Branches	247	251	240	252	258	1.1
- Gateways	19	18	18	19	20	1.3
- Franchise	5	5	5	5	6	4.7
- Affiliates	2	2	2	2	45	117.8
- Agents	276	276	269	285	232	-4.2
- Drop-in Centres	-	-	87	135	221	59.4*

** AAGR between 2010 and 2012. (Source: Malaysian Communications and Multimedia Commission)*

Notes: Figures above are based on ten major operators in the Courier Industry in Malaysia.

2.5 Review of Literature on the Case Issues

2.5.1 Sustainability

Interpreting the meaning of sustainability is different from one person to another (Jacob Park, 2011). According to Brundtland Commission, sustainable development is an ability to meet the present needs and maintaining the needs for future generation. Sustainability is a manner to ensure what we have now will continue until forever for example unpolluted air, water and other resources. This could be a simple ideas or a way of life without endangering the needs of future people.

Sustainability has become a vital way in developing life in many countries including Malaysia. The Malaysian Government has been promoting sustainable extremely. Yet, many organisations in Malaysia still not interested to integrate the concept of sustainability. To enhance the awareness and understanding, Government has emphasized on green economy in the 10th Malaysia Plan 2011-2015 (RSM, 2010).

The other way to understand sustainability is by looking at the Three Pillars of Sustainability development. Organisations may use this approach to balance of the social equality, economic growth and environmental protection.

2.5.1.1 Social Pillar

Under this pillar, people are the main focus group. According to Brundtland Commission, the earnings' gap between upper class and lower class are growing throughout the globe. This social pillar of sustainability concentrate on examines the balance of needs between an individual and a group. Many organisations approached this pillar in different ways. A successful sustainability approach is the one that binds

well with the organisation mission. In line with the innovative economy, organisations should thrive on long-term goals to obtain sustain innovation. Relating to service innovation, social sustainability is more focus on the internal and external stakeholders' interest where internal includes the man power while the external include local communities. The rights and cultural sensitivities of each stakeholder are differ and should be treat respectfully.

2.5.1.2 Economic Pillar

Economic sustainability is the economic ability to bolster specified level of economic production for an indefinite period. Under this pillar, the economic sustainability is used for determining strategies that can uphold the best advantage of socio economic resources. The economic pillar is vital focal point by many organisations to invade the efforts and better development quest. In order to build the economies, many countries are focusing on the extraction of resources leading to unsustainable environmental protection but yet sustainable the economic growth. Relating to service innovation, economic sustainability should be address in term of revenue and expenses incurred by the organisation.

2.5.1.3 Environmental Pillar

Environmental sustainability is about preservation of nature by minimizing practices that can degradation our planet. Under this pillar, the environmental sustainability happen when process activities used lessen the environmental impact of an organisation's operational activities. Over the last 20 years, the environment protection has become important and people start to get involve in green technologies. The important of environmental protection has emerged throughout the

global. Related to service innovation, environmental factors lie primarily to the products and services that are consumed by the organization and its stakeholders in operational process of planning, implementing and distributing.

2.5.2 Importance of Sustainability to Businesses

Challenges of economic, social and environmental issues facing by the organisations are not like those faced by organizations some time ago. There are pressure from the government and consumer for an organisation to run a business in a manner which protecting the environment. But, if the organisation utilized the opportunity through eco awareness efforts, it can boost up profits and sustain the organisations' competitiveness. In this climate, sustainability serves as a foundation for the success of the organisation and in the meantime preserves the environment, helps the community and averts social problems. Through sustainability, businesses have the ability to:-

- Offers products and services that innovative
- Creating employment opportunities
- Reduce dependence on natural resources and pollution
- Contribute to improve energy and safety around the world
- Assist people to practice a creative, appealing and healthy live.

2.5.3 Service Innovation

At the end of 1990s, Malaysia was looking forward to the innovation led economy. As reported by the Ministry of Science, Technology and Innovation, in the innovation competitiveness, Malaysia was at 24th position and in the Global Competitiveness Index for years 2012-2013 Malaysia was at 25th position (MOSTI,

2010). Service sector is one of the main contributions of this achievement. Postal and courier service is part of the service sector that continues to develop.

Relationship between services and innovation came to the fore with Gershuny's study of the self-service company. According to Gershuny (1978), from new demand for new service or product has enhanced the growth of the self-service activity. Activities such as on-line shopping or television-shopping channel required new retail system. In other word, service innovation can be said as one way for organisation to introduce new ideas of services which focus on continual improvement in operational, technology, consumer experience and employee performance, this can benefit the organisation concept or business models (Cornell Hospitality roundtable Proceedings, 2008).

Every company in every industry needs an innovation strategy whether it involve product innovation, packing innovation consumer goods or service innovation at banking institutions. Innovation is a key for companies to growth, to acquire sustainable competitive advantage and to build long-term shareholder value. Due to the diversity within the services sector, innovation sometimes seems to be difference between some service industries or manufacturing industries for example the nature of process innovation is not the same for a financial service, a hotel service and a postal service. There are three additional benefits gaining from innovation:

a) Improve operational efficiency

An appropriate organisation innovation can help to increase profitability by decreasing production costs.

b) Amplify employees retention

Finding skill employee is a huge challenge for service organisations. The challenge of producing new ideas and the execution to success can be extremely motivating for employees. Thus, it also helps to sustain skilled persons. As supplementary, customers tend to be loyal to a service organisation with small employees' turnover.

c) Enhance recognition

As innovation is visible to consumers, the reputation of the innovating organisation is seen as enhance improvement that lead the market.

According to den Hertog (2000), service innovation is rarely limited to change the characteristic of the service product itself. The new trends in distribution of products, customer interaction, quality control and assurance often interrelated with innovation. By using the new distribution channel, the offering of new service may vary from offering the existing service. In fact, most innovation service emerges to be a combination of major and minor changes and alteration of existing products or services. Inside the service business, innovation works best if the innovations are aligned with core purpose, congregate a future consumer need and it is capable to be executed in the organisation.

In the modern economy, service innovation has turn out to be one of the successful decisive factors. As services depend significantly with people who work together and technology to bestow value to others; new skills are required for amalgamating of people, technology and business (Macaulay and Zhao, 2006). Organisations should capable to capture an equitable valued created in order for

innovation to sustain economically. Traditionally, service innovation has stress out the improvement of new service offering and concept including process of creating new ideas for service offers and enlarges customer oriented options. According to Kindström and Kowalkowski (2014), the resources and abilities need to be incorporated and recognized on the whole service innovation. The linkage of business fundamentals indicates that some resources and abilities strengthen more than one fundamental. Neither of the resources and abilities is a *sine qua non* of service innovation in separated. Yet, they generally interconnected and the more the organisations progressively wield, the better the chances for innovation to success as referred to Table 3.

Table 3: *Kindström and Kowalkowski (2014)*

Business Model Elements	Resources for Service Innovation	Capabilities for Service Innovation
Offering	Customer base Product usage and process data ICT define	Offering portfolio management capability Product-service integration capability Design-to-service capability Customer needing interpretation capability
Revenue model	Product usage and process data System knowledge Seamless offering	Pricing capability Value visualization capability Risk management and mitigation capability
Development process	Service development process and strategy Lead customer Dedicated service development roles	User involvement and engagement capability Internal sensing capability Formalization and replication capability
Sales process	Service-oriented incentive system Customer involvement Field service organisation Back-office specialist support	Value visualisation capability Internal coordination capability Customer needing interpretation capability
Delivery process	Field service network Back-office infrastructure Customer involvement	Capability utilization and prognostication capability Internal-external design capability

Customer relationship	Customer interaction network Field service organisation Customer counselling and adaptiveness	Customer embeddedness capability Proactive-reactive balancing capability Customer portfolio management capability
Value network	Distributor network Customer interface Specialist supplier base Influence relationships	Orchestration capability Partner knowledge capability Network dynamics understanding capability
Culture	Service awareness Long term orientation Service champions Service-oriented incentive system	Service leadership capability Service logic translation capability Product-service balancing capability

Table 3: *Kindström and Kowalkowski (2014)-continue*

2.5.4 Opportunities for Service Innovation Sustainability

Services are shifting to centre stage of global arena where knowledge intensive business services aimed at business performance transformation. Thus, need for innovation to stimulate the growth of economic and to enhance the quality and productivity of services is vital (Spohrer and Maglio, 2009).

The emergence of e-commerce is not a new story. Since 1993, the introduction of commercial use of internet and World Wide Web has been crucial to e-commerce (Zwass, 1996). The emerging of the internet and World Wide World as a medium for commercial transaction has driven the e-commerce to become the main focus of the international community. Both medium has made commercial transactions between businesses and consumers more simple, inexpensive and easily accessible electronically as compared to the traditional way of using private value-added network (Margherio, 1998). The changing in these new services sequentially change to decision making behaviour and also in other areas (IfM and IBM, 2008).

From the introduction of Internet Service Provider by Jaring in 1990 and TMNet in 1996, Malaysia has experience a drastic escalation of internet usages. The

number of internet users in 1992 was only 90 people but the obsession to get connected has increased from 50,176 people in 1996 to 100,103 people in 1997 (Hassan, 1997, cited by Adeline Chua, 2006). Later in 2002, the numbers keep increasing to 2 million people which were about 21 per cent of Malaysia's population (Nua, 2002, cited by Adeline Chua, 2006). According to International Data Corporation Asia-Pacific research, it is forecasted that online shopping in Malaysia promise a bright future.

Service innovation has found its position in the virtual world. The rise in e-commerce catalogues, coupons and other mailed services have offered spark purchasing ideas and inform online shopping. Online shopping then results in package deliveries which have increased by 7.5 per cent in just one year and the postal service is working to enhance the value of the delivery. The Postal Service had conducted a pilot test in package locker offering in Northern Virginia called "*gopost*" in 2012. The concept of self-service innovation is used whereby a package locker is set up in convenience high foot-traffic places. The benefit of this service is where customer can have their own convenience to collect packages on their own schedule by not having to worry about the package being left on a doorstep or need to visit post office if they missed the letter carrier visit. This simple, personal, convenient process leverages data and technology and enables customers to have another delivery choice using a platform created by the postal service.

2.5.5 Key Elements of Service Innovation Sustainability

Service organisations are attempting constantly to find innovative ways to serves customers at their best effectively and efficiently. Based on the finding from

the Cornell Hospitality roundtable Proceedings (2008), the enhanced or new service or product has to consist of three key elements as summarized in Figure 2-1.

Customer Focused	A customer-centric approach to exceeding guest expectations.
	Any new technology, procedure, or method that improves the guest experience. Service innovation is simply new ways of meeting or exceeding guests' expectations.
Process Focused	Synergistic use of technology and process re-engineering to bring about a transformational step change in the quality of services being provided.
	Defines the processes of how significant improvements in products and services are adapted and ultimately delivered to users.
	Increase productivity and improve the customer experience.
Continuous Improvement	Continually seeking out ways to provide intuitive service to your customers.
	Continuous improvement of the customer experience, or the cost of delivery of that customer experience; the ability to both anticipate and to invent new ways of delighting the customer in an economically sustainable manner.

Note: Items are compiled from 2008 innovation roundtable comments.

Figure 2-1: Key Elements of Service Innovation
Source: *Cornell Hospitality roundtable Proceedings (2008)*

First element is customer focused, or known as customer-centric approach beyond customers' expectation in new technology process or method that enhanced customers' experience. Service innovation is a merely new ways of meeting customers' expectation. Second element is having a process focused that includes synergetic use of technology and process re-engineering to reveal out the transformational change in the quality of service being offered. It also defined as a process of how major enhancement in services or products are adapted and delivered to customers' which raise the productivity efficiency at the same time improving customers' experience. The third key element is utilizing a continuous enhancement approach in doing business. Continuous improvement of customers' experience enhances the ability to create new ways of pleasuring customer in an economically sustainable approach. Each of these key elements is further discussed in the following subsection.